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INTRODUCTION

The Office of Internal Audit performed an audit of Van Buren County FIA for the period October 1, 1999 through May 19, 2000. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Van Buren County FIA had 110 full time equated positions (FTE's) at the time of our review. Van Buren County FIA provided assistance to an average 6,543 recipients per month during FY 1999, with total assistance payments of \$8,213,921 during that year.

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at the Van Buren County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts	Cash Disbursement
General Ledger	State Emergency Relief (SER)
Modified Accrual Basis Balance Sheet	Safe and Controlled Documents
Food Stamp Inventory and Issuance	Medical Transportation
Employment Support Services	Child Well Being
Client Processing	CIS/ASSIST
IRS Information Security	Payroll and Timekeeping
Procurement Card	Telephone Usage

EXECUTIVE SUMMARY

Based on our audit, we concluded that the Van Buren County FIA internal controls were not adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. Subsequent to our audit, VanBuren County FIA implemented corrective action for most of the items included in the report, and was in the process of implementing corrective action the remaining items, which we verified during a return visit on July 13, 2000. We concluded that, based on the corrective actions already taken, VanBuren County FIA's internal controls are now generally adequate.

LOCAL OFFICES RESPONSE

Van Buren County FIA management has reviewed all findings and recommendations included in this report. They indicated in a Memorandum dated June 22, 2000, and during the follow-up review on July 13, 2000, that they are in general agreement with the report and either have implemented, or are in the process of developing, corrective action for all items.

FINDINGS AND RECOMMENDATIONS

Cash Receipts

Open Items on FIA-61

1. Van Buren County FIA did not always record disposition information on the Record and Disposition of Checks/Warrants (FIA-61), as required by Accounting Manual Item 460. We found two open items on the FIA-61, where the checks/warrants were not on hand and the local office had not recorded the disposition. Recording the disposition on the FIA-61 provides documentation that returned checks/warrants were disposed of properly.

WE RECOMMEND that Van Buren County FIA record the disposition of all checks/warrants on the FIA-61.

WE ALSO RECOMMEND that Van Buren County FIA determine the disposition of the two open items on the FIA-61, and take the appropriate corrective action.

Note: Corrective Action Taken while auditor was on site.

Pending FIA-138/2362 File

2. Van Buren County FIA did not have a pending file of Action Taken on State Treasurer's Warrants by Local Offices (FIA-138) and Returned Services Warrants (FIA-2362) for warrants that were on hand. Accounting Manual Item 462 requires that local offices maintain a file of pending FIA-138's/FIA-2362's to be used for monitoring to ensure that workers return the FIA-138's/FIA-2362's timely with instructions for disposition of returned warrants.

WE RECOMMEND that Van Buren County FIA keep pending FIA-138/FIA-2362's on file for all warrants that are on hand.

Returned Warrants

3. Van Buren County FIA was maintaining 2 returned state warrants on hand for periods longer than the 10 days required by Accounting Manual Item 462. Voiding returned state warrants after 10 business days encourages immediate disposition and provides improved accountability for the warrants.

WE RECOMMEND that Van Buren County FIA dispose of returned state warrants within 10 business days.

FIA-61 Log Reconciliation

4. The Van Buren County did not perform a weekly reconciliation of checks/warrants on hand to the open items on the Record and Disposition of Checks/Warrants (FIA-61), as required by Accounting Manual Item 460. A weekly reconciliation is necessary for timely detection of any warrants/checks that are lost or stolen, and to ensure that all checks/warrants on hand are properly recorded on the FIA-61. We also noted that the posting of disposition information to the FIA-61 was not up-to-date. Keeping the posting up to date facilitates the reconciliation process.

WE RECOMMEND that Van Buren County FIA perform a weekly reconciliation of checks/warrants on hand to the FIA-61, and keep posting of disposition information on the FIA-61 up-to-date.

Frequency of Deposits

5. Van Buren County FIA did not make bank deposits weekly, as required by Accounting Manual Item 430. Rather, the local office was making deposits twice per month. Depositing the receipts weekly increases interest earned and helps to prevent funds from being misplaced or stolen while on hand in the local office.

WE RECOMMEND that Van Buren County FIA deposit its cash receipts at least once each week.

Mail Pick Up

6. Van Buren County FIA had one person pick up the mail at the post office in a locked container. However, this same person held the keys to the locked container. The Primary Internal Control Criteria for FIA Local/District Office Operations recommends that either two people pick up the mail from the post office or a locked mail bag be used and an independent person hold the keys. Having one person pick up the mail in a locked bag

and an independent person hold the keys helps to ensure that cash or negotiable instruments received in the mail are not lost or stolen before being recorded on the local office records.

WE RECOMMEND that Van Buren County FIA have an independent person hold the keys to the mailbag.

Cash Disbursements

Authorized Check Signers on File

7. Van Buren County FIA did not have a signature card on file for the employees currently responsible for signing checks. The prior fiscal supervisor's name was still active at the bank as an authorized signer. For internal control purposes, the signature card should be updated to include the names of the employees currently responsible for signing checks. The designated check signers should complete a new signature card to be kept on file with the bank.

WE RECOMMEND that Van Buren County FIA obtain a current signature card and file it with the bank.

Sign-O-Meter Record and Reconciliation

8. Van Buren County FIA did not prepare the Sign-O-Meter Record (FIA-4711), and document the reconciliation, as required by Accounting Manual Item 410.1. Instead the meter record that accompanied the new check signer was used to record the check numbers and meter readings. Use of the Sign-O-Meter Record and reconciliation process helps to ensure that all checks that go through the check signer are accounted for in the accounting records.

WE RECOMMEND that Van Buren County FIA use the Sign-O-Meter record to record the check numbers, meter readings and document the reconciliation of the check register with the Sign –O-Meter Record.

General Ledger

No Findings

Modified Accrual Basis Balance Sheet

Modified Accrual Basis Balance Sheet Items not Reconciled to the General Ledger

9. Van Buren County FIA did not reconcile the Modified Accrual Basis Balance Sheet items to the General Ledger for the month of March, 2000, as required by Accounting Manual Item 402.3. Reconciliation of the Balance Sheet to the General Ledger is necessary to provide an accurate presentation of the local office's financial position.

WE RECOMMEND that Van Buren County FIA reconcile the Modified Accrual Basis Balance Sheet to the General Ledger for March, 2000.

Outstanding Accounts Receivable Files

10. Van Buren County FIA did not maintain an Outstanding Accounts Receivable file for each type of billing/report/authorization used to obtain reimbursement from the State, as required by Accounting Manual Item 402.3. Maintaining these files helps the local office keep accurate records of amounts due from the State, and helps to ensure accurate reporting of accounts receivable for reporting on the Modified Accrual Basis Balance Sheet.

WE RECOMMEND that Van Buren County FIA maintain an Outstanding Accounts Receivable file for each type of billing/report/authorization used to obtain reimbursement from the State.

Safe and Controlled Documents

Improper Separation of Duties – Blank Checks, and Other Controlled Documents

11. Van Buren County FIA did not properly separate the duties of logging and reconciling the controlled documents. The stock room clerk had access to the bulk supply of checks and was responsible for preparing the Controlled Document Log (FIA-4070) and the Monthly Reconciliation (FIA-4351). The bookkeeper was responsible for preparing the Controlled Document Log and performing the Monthly Reconciliation of all other Controlled Documents. Accounting Manual Item 403 requires that a designated employee be responsible for the inventory and control of controlled documents. The duties of preparing the Controlled Document Log (FIA-4070) and performing the Monthly Controlled Document Inventory and Reconciliation are to be separated. Separating these duties helps to reduce the risk of loss, theft, and misuse of the documents.

WE RECOMMEND that Van Buren County FIA have a fiscal clerk prepare the Controlled Document Log for all controlled documents, and have two independent employees perform the physical inventory and prepare the Monthly Controlled Document Inventory and Reconciliation.

Controlled Document Log

12. Van Buren County FIA did not properly control the blank check inventory. We noted that the local office was not properly completing the Controlled Document Log (FIA-4070), and was not preparing the Monthly Controlled Document Inventory and Reconciliation (FIA-4351), as required by Accounting Manual Item 403 for the LOAAS and LASR blank check inventory. The latest reconciliation prepared was June 30, 1999. Proper use of the Controlled Document Log and preparation of the Monthly Controlled Document Inventory and Reconciliation help to ensure that loss, theft, or misuse of blank checks would be detected on a timely basis.

WE RECOMMEND that Van Buren County FIA use the Controlled Document Log and prepare the Monthly Controlled Document Inventory and Reconciliation for the LOAAS and LASR blank check inventory.

Obsolete Controlled Documents

13. Van Buren County FIA had obsolete Purchase Orders (FIA-2083) and LOAAS checks (FIA-1802) on hand, which they were not controlling. Accounting Manual Item 403 requires that these documents be controlled, and gives instructions for the destruction of obsolete forms. Keeping obsolete forms on hand and not controlling them increases the risk of these forms being used inappropriately.

WE RECOMMEND that Van Buren County FIA destroy the obsolete FIA-2083's and FIA-1802's in accordance with the instructions in Accounting Manual Item 403.

Food Stamp Inventory and Issuance

Returned Food Stamps

14. Van Buren County FIA did not properly dispose of returned food stamps. We found stamps that had been turned in by the public and that had been returned by a client for payment of a claim, on hand in the safe. These stamps were dated March, 2000. Food Stamp Issuance Instructions Manual Item 321 states that these Stamps should be receipted in by the local office and destroyed locally upon completion of the Affidavit of Return or Exchange of Food Stamps (FNS-135). Completion of the FNS-135 and destruction of the food stamps helps to ensure that all food stamps are properly accounted for and are not misused.

WE RECOMMEND that Van Buren County FIA prepare all the necessary documentation and destroy the food stamps that have been returned by a client for payment of a claim or turned in by the public.

Note: Corrective Action Taken while the auditor was on site.

Recounting Food Stamp Envelopes

15. The Van Buren County FIA mail clerk did not reconcile the recount of the envelopes in the food stamp mail issuance process with the bookkeeper's count after they were run through the postage machine, as required by Food Stamp Issuance Instructions Manual Item 510. Having the mail clerk and the bookkeeper reconcile the envelope count will ensure that none of the stamps were misplaced during the mail issuance process.

WE RECOMMEND that the Van Buren County FIA mail clerk and bookkeeper reconcile the food stamp mail issuance envelopes after they are run through the postage machine.

Note: Corrective Action Taken while auditor was on site.

Transporting Food Stamps to the Post Office

16. Van Buren County FIA had one person transporting food stamps to the post office in a locked container, but this employee also held the key for the locked bag. Food Stamp Issuance Instructions Manual Item 500 states that internal controls would be strengthened by using locked mailbags and having an independent person maintain the keys. Having an independent person maintain the keys will ensure proper separation of duties.

WE RECOMMEND that Van Buren County FIA have an independent person maintain the keys to the lock for the mailbags.

Medical Transportation

Medical Transportation

17. Van Buren County FIA did not have completed up-to-date Medical Needs Authorizations (FIA-54A) on file for 13 out of 17 cases we tested. Program Administrative Manual Item 825 and Accounting Manual Item 416 required that properly completed FIA-54A's be on file to document the need for medical transportation. Proper completion of all required information on the FIA-54A helps to ensure that medical transportation payments are only authorized when there is a documented medical need.

WE RECOMMEND that Van Buren County FIA ensure that complete, up-to-date Medical Needs Authorizations are on file to document the need for all medical transportation payments.

State Emergency Relief

Payment Authorization Files

18. Van Buren County FIA did not maintain the files of Supplemental Payment Authorizations (FIA-13) and Authorization Invoices (FIA-849) in either alphabetical or case number order, as required by Accounting Manual Item 404. Rather, the local office was maintaining the FIA-13's in date order, and the FIA-849's in invoice order. Maintaining the FIA-13's and FIA-849's in either alphabetical or case number order provides an audit trail to easily detect how many supplements or emergency payments a client has received, and makes the FIA-13's and FIA-849's easy to retrieve if needed at a later date.

WE RECOMMEND that Van Buren County FIA maintain FIA-13's and FIA-849's in either alphabetical or case number order.

Note: Corrective Action Taken while auditor was on site.

Supporting Documentation for Payments

19. Van Buren County FIA did not always attach supporting documentation to the FIA-849 on file in the Accounting Office, as required by Accounting Manual Item 404. An original invoice or other supporting documentation was not attached for 3 of the payments, and copies of invoices were attached for 42 of the 146 payments we reviewed. In addition, one payment was made from an estimate for service instead of a vendor invoice. Attaching original invoices to the Accounting Office copy of the FIA-849 helps prevent duplicate payments and ensure that all FIA-849 payments are accurate and appropriate.

WE RECOMMEND that Van Buren County FIA attach an original vendor invoice or other supporting documentation to the Accounting Office copy of the FIA-849.

Employment Support Services

Vehicle Repair and Program Support Documentation

20. Van Buren County FIA made vehicle repair payments from an estimated bill for repair services in one instance during the month of March, 2000, and there were 2 instances of payments made for car repairs where there was no documentation of ownership of the vehicle. PEM 232 allows for ESS funds to be used for vehicle repair or support services only when necessary for employment and proper documentation of ownership is in the case.

WE RECOMMEND that Van Buren County FIA make vehicle repair payments based only on original invoices, and require verification of vehicle ownership before authorizing payment.

Client Processing

No Findings

CIS/ASSIST

MA-010 Reconciliation

21. Van Buren County FIA did not properly reconcile flagged transactions on the Transaction Control Listing (MA-010) to the input documents, as required by the Local Office Reports Description Manual. The reconciliation clerk had the worker or the worker's supervisor initial and date the MA-010 when the reconciliation was completed. Documentation was not attached to the MA-010 to verify the transaction was appropriate. Attaching documentation to the MA-010 to document reconciliation of the flagged accounts helps to ensure that transactions were properly authorized and correctly entered on the Client Information System (CIS).

WE RECOMMEND that Van Buren County FIA attach the corresponding documentation to reconcile the flagged transactions on the MA-010 to the input documents.

CIS Security Agreements

22. Van Buren County FIA did not have accurate, up-to-date CIS Security Agreements (FIA-3974A) on file for one employee who accessed the Client Information System (CIS), as required by L-Letter 97-063. For fifty-eight of the 106 agreements we reviewed the status code indicated on the FIA-3974A did not agree with the current status code listed on the Operator Identification Report (PF-011).

WE RECOMMEND that Van Buren County FIA have all employees who have access to the CIS system complete a CIS Security Agreement and that the status codes on the Security Agreement are consistent with the status code on the PF-011 report.

Security Officers Log Report (PD-180)

23. Van Buren County FIA did not properly separate the duties of the Security Coordinator. The Security Coordinator maintained the security agreements and was also responsible for reconciling the Security Officers Log Report (PD-180) to the Security Agreements (FIA-3974A's). L-Letter L-97-063 requires the reconciler to compare this report to a signed Security Agreement to ensure that all changes are accurate. For internal control purposes the reconciler must not be the CIS Security Coordinator and must be someone without access to CIS.

WE RECOMMEND that Van Buren County FIA have an independent person reconcile the PD-180 report to revised Security Agreements.

CIS Status Codes

24. Five Family Independence Managers (FIM) at Van Buren County FIA had an FLM status code on the Client Information System (CIS). This status would allow these managers to process case transactions without an independent review.

WE RECOMMEND that Van Buren County FIA either change the Family Independence Managers to inquiry only status on CIS, or have an independent person review all transactions processed by the FIM's.

Missing ASSIST Enrollment Profiles and Security Agreements

25. One employee at Van Buren County FIA who had access to ASSIST did not have an ASSIST Enrollment Profile (FIA-3720), and 2 did not have ASSIST Security Agreements (FIA-3721) on file, as required by L-Letter 97-156. Accurate, up-to-date Enrollment Profiles and Security Agreements provide documentation that workers understand the access they have on ASSIST and the responsibility associated with that access.

WE RECOMMEND that Van Buren County FIA ensure that accurate, up-to-date Enrollment Profiles and Security Agreements are on file for all employees who have access to ASSIST.

Incompatible ASSIST/CIS Job Types/Status

26. Four employees at Van Buren County had ASSIST job types and CIS status codes that were incompatible. One word processing clerk, two FIM's, and one office supervisor had job type 360 (REG) on ASSIST. The office supervisor and clerk also had 380 (Case Opening for Services) on ASSIST. The two FIM's and the office supervisor had FLM status on CIS, and the word processing clerk had CRS status. These job types and status codes allow these employees to register cases and open them on ASSIST and perform file maintenance on CIS. This does not allow for proper separation of duties.

WE RECOMMEND that Van Buren County FIA either change or customize the job types or status codes of these employees so that they are not able to register and open cases.

IRS Information Security

Unsigned Unearned Income Notice

27. Van Buren County FIA did not properly safeguard the Internal Revenue Service Data Control Sheet (FIA-4488). The FIA-4488 and the instructions for retrieving IEVS information were maintained on the DSP's desk, in an unsecured area. We also found two cases where the worker was holding the unsigned FIA-4487A. Program Administrative Manual Item 803 requires that unsigned FIA-4487A's, instructions, and the FIA-4488 be held by the DSP in a secure area. These procedures are necessary to ensure that information obtained from the IRS remains confidential.

WE RECOMMEND that Van Buren County FIA ensure that all unsigned FIA-4487A's, and the FIA-4488 and instructions are kept by the DSP in a secure area.

Knowledge of IRS Security Procedures

28. Mail room staff, Family Independence Specialists (FIS), and Eligibility Specialists (ES) at Van Buren County FIA were unaware of the proper procedures to follow for confidential information received from the IRS. Program Administrative Manual (PAM) Item 803 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Staff understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that Van Buren County FIA familiarize staff with all aspects of the confidentiality laws for information received from the IRS.

Follow-Up of IRS Information

29. Van Buren County FIA did not document on the Internal Revenue Service (IRS) Data Control Sheet (FIA-4488) that action was taken on information received from the IRS. We noted that for all 5 entries on the FIA-4488 the disposition of the IRS letter (FIA-4487A) was not recorded on the FIA-4488. Program Administrative Manual Item 803 states that the local office should attempt to obtain release of confidentiality from the client or confirmation from a third party when the client does not respond, and that the disposition of the FIA-4487A is to be documented on the FIA-4488. Recording the disposition of the FIA-4487A is necessary to determine the form was properly disposed of and the confidentiality of the document was maintained.

WE RECOMMEND that Van Buren County FIA properly document the disposition of the FIA-4487A on the Data Control Sheet.

Payroll and Timekeeping

No Findings

Procurement Card

No Findings

Telephone Usage

No findings

Child Well Being

No findings